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Applicants: Bruce Bradford Thomas and Lester Ware Preston, III

Title: Collateral Coverage for Insurers and Advisors

GAU: 3626

Trumbull, CT, October 3, 2005

Prior Art

Commissioner for Patents

PO Box 1450, Alexandria, VA 22313-1450

Dear Sir or Madame:

When we filed the above patent application, we did not file an Information Disclosure Form because we were not aware of any prior art that had a direct bearing on our patent claims. We have recently come across an example of what may be considered prior art for "Collateral Coverage for Insurers and Advisors," and we want to fulfill our responsibility for making the patent office aware of it.

On September 23, 2005, we met with representatives of Marsh, Inc. who have many years of expertise in commercial property insurance. The purpose of the meeting was to explain "Secondary Loss Expense Coverage" (Patent Application # 10/647,078) to them and determine how to best offer this new type of coverage to their insurance brokerage clients.

In discussing the details of this product, one of the Marsh representatives named John Hughes referred to a product called "Samuri" that had been tried in 1989 by a Lloyd's Syndicate. He gave us a copy of the attached document which outlines this product. We believe this document may be considered prior art for Secondary Loss Expense Coverage and Collateral Coverage for Insurers and Advisors, and we want to fulfill our responsibility for making the patent office aware of it.

We do not know if this document merely represents an attempt to determine if there would be any buyer interest for this product or if actual policies were sold. However, we do not believe that Samuri was a successful product, because we are not aware of this type of coverage being offered, and we have talked to hundreds of people in the insurance industry about Secondary Loss Expense Coverage.

Nevertheless, there are several aspects of Samuri that we believe are novel in the insurance business. First, the coverage addresses some types of what we have termed "collateral costs" in our patent specification. In this case, the losses that were intended to be covered were not covered or not fully covered by a highly protected risk property policy (HPR policy). Second, the loss payout was to be determined without having to prove the amount of actual losses that were sustained. Thus, this policy was an "agreed value policy."

There are many aspects of this coverage that can only be determined by reviewing an actual Samuri policy, assuming there was one. However, it seems reasonable to believe that the Samuri policy envisioned in the attached document would have paid-out a fixed amount when the referenced policy paid out an amount large enough to exceed the "trigger point." In our specification, we have described this as a binary "nonproportional payment" since it is either zero or some specified number, but it does not change based on the size of the referenced loss payment. The premium of the Samuri coverage is set by judgment.

There are several reasons why the Samuri coverage may not have been desirable to insurance buyers. First, the concept of collateral losses was not very well developed. As a result, coverage buyers and sellers may have viewed these additional losses as merely a "hassle," and companies do not typically buy or sell insurance for inconveniences but for serious losses. Moreover, the maximum coverage of $1.5 million that was offered was most likely far too small to be meaningful to most companies that would have HPR policies. HPR policies typically cover commercial buildings that cost tens of millions of dollars.

Second, this policy would have been undesirable to most commercial buyers because of the binary nature of the payoff. Assuming that the reference payout was $1 short of the trigger, no amount would have been paid for the Samuri coverage. Finally, the premium range of 5% to 10% of the limit of indemnity seems like extreme price gouging.

Sincerely,

Bruce B. Thomas
145 Lake Avenue
Trumbull, CT 06611
203-445-0830

L. Ware Preston, III